

## Section 2

### Cost-Containment Practices

State WIC agencies use several different approaches to control the costs of WIC food packages. One approach is to reduce the prices WIC participants pay for food items by selecting lower-priced stores for vendor authorization. Another approach is to reduce the unit price of food purchases by restricting the brands or the product packaging allowed for purchase with WIC food instruments. A third approach is to enter into agreements with specific manufacturers to negotiate a lower unit price for certain food items.

Some State WIC agencies use all three types of cost-containment practices; others use only one or two; very few States use none. Furthermore, within each type of cost-containment practice, there is variation in the scope and restrictiveness of the practice; for example, food item restrictions and rebates may be used to reduce food costs in one or more categories of food. This section documents what has been learned about the cost-containment practices being used by State WIC agencies.

### Vendor Selection Practices

As stated in Food and Nutrition Service (FNS) regulations, the following principle governs the authorization of WIC vendors:

The State agency shall authorize an appropriate number and distribution of food vendors in order to assure adequate participant convenience and access and to assure that State or local officials can effectively manage review of authorized food vendors in their jurisdiction.<sup>2</sup>

Thus, States must balance the goal of adequate participant access with the goal of adequate oversight. The regulations recognize this trade-off by allowing, but not mandating, States to establish criteria to limit the number of vendors. State WIC agencies restrict the number of vendors by placing numeric limits on the number of authorized vendors. Vendor limits are defined in terms of an absolute maximum number of authorized vendors (for the whole State or portions of it), or in terms of a maximum ratio of WIC participants to vendors.<sup>3</sup>

Furthermore, States must establish selection criteria for WIC vendors that applicant stores must meet in order to be selected for vendor authorization. Selection criteria include requirements that vendors do not

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<sup>2</sup> 7 CFR 246.12(e)(2).

<sup>3</sup> According to vendor application materials collected from States for this study, 23 States set a limit on the number of authorized WIC vendors. Eleven States limit the ratio of participants to vendors, two States limit the absolute number of authorized vendors in the State, and nine States specify use of vendor limits but did not specify the mechanism for setting the limit.

exceed maximum price limits, that they meet requirements for competitive pricing and stock a minimum variety and quantity of supplemental foods, and that they meet certain business integrity requirements.<sup>4</sup>

### **Competitive Pricing**

The principal vendor selection criterion used for cost-containment purposes is a competitive pricing standard to select lower-priced vendors. States with a competitive pricing criterion require that vendors charge a “fair and competitive price.” States differ in defining the fair and competitive price and whether they use a competitive pricing criterion at application or in evaluating redemptions.

Exhibit 1 presents information on the use of competitive pricing standards, based on information from vendor application materials and vendor handbooks collected for this study from all States using retail food delivery systems. For the purpose of the current study, the contractor identified whether competitive pricing is used at application and, if so, the relative stringency of the criterion.

Exhibit 1 shows that almost all States with retail delivery systems use competitive pricing at application. The relative stringency of competitive pricing criterion is shown in the classification of States as “highly-restrictive” or “less-restrictive” in Exhibit 1 (last column). States requiring that applicants’ prices be lower than 110 percent of existing vendors’ average prices were classified as having a “highly-restrictive” criterion. States with a threshold greater than 110 percent were classified as having a “less-restrictive” criterion. Twenty of the 45 States using competitive pricing use the 110 percent, highly-restrictive threshold; they are shown in the last column with an “H.” Those States using a less-restrictive threshold (and those for whom the threshold could not be determined) are shown with an “L.”

Competitive pricing policies identify States that seek to contain WIC food costs by selecting lower-priced stores for vendor authorization. It is apparent from Exhibit 1, however, that the precise details of competitive pricing criteria could not be discerned for all States. Moreover, vendor selection practices that are comparable across States may nonetheless result in different levels of participant access to vendors, depending on the precise details of implementation and the grocery retailing environment in each State.

### **Ratio of WIC Vendors to FSP Vendors**

To compare the effective levels of participant access to WIC vendors across States, the number of WIC vendors in each State was tabulated and compared to the number of FSP-authorized retailers. The FSP data are used to create a comparable measure across States. The ratio of the number of WIC vendors to the number of FSP-authorized retailers indicates the effective restrictiveness of WIC vendor policies. The higher this ratio, the greater the number of retailers participating in WIC and the less restrictive the State’s WIC vendor selection policy; States with more restrictive policies have lower ratios.

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<sup>4</sup> Other selection criteria, which are used less frequently, include minimum days and hours of operation, minimum store size or total food sales volume, and minimum distance from the nearest authorized WIC vendor.

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**Exhibit 1****Use of competitive pricing for vendor selection**

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<b>State</b>	<b>State uses competitive pricing</b>	<b>Competitive pricing criterion<sup>a</sup></b>	<b>Stringency of criterion<sup>b</sup></b>
<b>Northeast</b>			
Connecticut	✓	Prices < avg + NS%	L
Maine	✓	Prices < avg + 10%	H
Massachusetts	✓	No*	H
New Hampshire	✓	Prices < avg + NS%	L
New York	✓	Prices < avg + 10%	H
Rhode Island	✓	Prices < avg + NS%	L
Vermont (home delivery)			
<b>Mid-Atlantic</b>			
Delaware (price-bid contracts)			
District of Columbia	✓	Prices < avg + NS%	L
Maryland	✓	Prices < avg + 25%	L
New Jersey	✓	Prices < avg + NS%	L
Pennsylvania	✓	Prices < max allowed	L
Virginia	✓	If vendor limit reached	L
West Virginia	✓	Prices < avg + 10%	H
<b>Southeast</b>			
Alabama	✓	Prices < avg + NS%	L
Florida	✓	Prices < avg + NS%	L
Georgia	✓	Prices < avg + 10%	H
Kentucky	✓	Prices < avg + 10%	H
Mississippi (home delivery)			
North Carolina			
South Carolina	✓	Prices < avg + NS%	L
Tennessee	✓	Prices < avg + 10%	H
<b>Midwest</b>			
Illinois	✓	Prices < avg + 5%	H
Indiana	✓	Prices < avg + 10%	H
Michigan	✓	Prices < avg + NS%	L
Minnesota	✓	Prices < avg + 20%	L
Ohio	✓	If vendor limit reached	L
Wisconsin	✓	Prices < avg + 15%	L
<b>Mountain Plains</b>			
Colorado	✓	Prices < avg + 10%	H
Iowa	✓	Prices < avg + 5%	H
Kansas	✓	Prices < avg + NS%	L
Missouri	✓	Prices < avg + 10%	H
Montana	✓	Prices < avg + NS% **	L
Nebraska	✓	Prices < avg + 10%	H
North Dakota			
South Dakota	✓	Prices < avg + 15%	L
Utah	✓	Prices < avg + 5%	H
Wyoming	✓	Prices < avg + 15%	L
<b>Southwest</b>			
Arkansas	✓	Prices < avg + 10%	H
Louisiana	✓	Prices < avg + 10%	H
New Mexico	✓	Prices < avg + 10%	H
Oklahoma	✓	Prices < avg + 5% **	H
Texas	✓	Prices < avg + 8%	H

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**Exhibit 1****Use of competitive pricing for vendor selection**

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State	State uses competitive pricing	Competitive pricing criterion <sup>a</sup>	Stringency of criterion <sup>b</sup>
<b>Western</b>			
Alaska	✓	Prices < avg + NS %	L
Arizona	✓	Prices < avg + 30%	L
California	✓	Prices < avg + NS %	L
Hawaii	✓	Prices < avg + 30%	L
Idaho	✓	Prices < avg + 25%	L
Nevada	✓	Prices < avg + 5%	H
Oregon			
Washington	✓	Prices < avg + 20%	L
<b>Total</b>	<b>45</b>		<b>H: 20/L: 25</b>

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a "Price < avg + NS %" denotes that State uses competitive pricing at application, but vendor materials do not specify the terms of the competitive pricing scheme.

b States with limits of 10 percent or less above average prices are rated as "H—highly restrictive" States; other States using prices for selection are rated as "L—Less-restrictive" States.

\* Massachusetts does not reject applicants based on prices, but the State informs applicants if prices are above average and likely to incur penalties. The effect of this process is considered highly selective.

\*\* Montana vendor selection information is from FNS profile; no materials received from State.

\*\*\* Oklahoma uses competitive pricing criteria at reauthorization only.

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Exhibit 2 presents the number of WIC-authorized vendors, by category, and the ratio of WIC to FSP retailers for three store categories: supermarkets, grocery stores, and all other store types. The last two columns of the exhibit indicate the relative restrictiveness of a State's vendor selection policies according to the ratio.

The ratios in Exhibit 2 have been calculated based on data contained in two databases. The number of FSP-authorized retailers comes from FNS' August 1999 Store Tracking and Redemption Subsystem (STARS), and the number of WIC-authorized vendors comes from FNS' October 1999 The Integrity Profile (TIP) database.

For supermarkets, the ratio of WIC vendors to FSP retailers varies from a low of 0.55 in Ohio to a high of 1.33 in Alaska.<sup>5</sup> The distribution for grocery stores varies from a low of 0.06 in both Hawaii and New Jersey to a high of 0.96 in North Dakota. In many instances, States with a highly-restrictive rating for one ratio have a highly-restrictive rating for both ratios. Similarly, many States have the less-restrictive rating for both ratios.

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<sup>5</sup> Because the STARS and TIP databases cover different time periods, it is possible for the ratio of WIC vendors to FSP retailers to exceed 1.0.

**Exhibit 2**

**Number of WIC vendors by state and vendor type, and ratio of WIC vendors to FSP stores within vendor category (alphabetical by region)**

State	Number WIC vendors by category <sup>b</sup>										Ratio of WIC/FSP retailers			Level of vendor restrictions <sup>a</sup>	
	Military commissary	Direct distribution	Home delivery	Pharmacy	WIC-only stores	Super-market	Grocery store	Other retailer	Type unknown	Super-market	Grocery store	Other retailer	Super-market	Grocery store	
	<b>Northeast</b>														
Connecticut	1			78		267	257	200	32	0.93	0.70	0.35		L	
Maine	4			3		141	124	94	15	1.06	0.62	0.08	L	L	
Massachusetts	2			130		370	171	157	4	0.78	0.34	0.09	H		
New Hampshire				27		127	28	65	3	0.97	0.44	0.15			
New York				163		1,555	2,527	342	195	0.84	0.44	0.07	H		
Rhode Island				4		50	72	60	6	0.70	0.53	0.14	H	L	
<b>Mid-Atlantic</b>															
Delaware	1			3		47	13	4	2	0.64	0.18	0.02	H	H	
Dist. of Columbia	1			2		20			3	0.51	0.00	0.00	H	H	
Maryland	8			22		430	41	25	50	0.81	0.07	0.02	H	H	
New Jersey	2			33		430	96	12	32	0.63	0.06	0.01	H	H	
Pennsylvania						957	289	78	45	0.76	0.14	0.02	H	H	
Virginia	13			9	2	797	173	92	33	0.96	0.27	0.04		H	
West Virginia				15		274	136	88	21	0.98	0.31	0.06			
<b>Southeast</b>															
Alabama						671	170	129	14	1.01	0.43	0.07	L		
Florida	12			6	45	1,450	227	101	42	0.93	0.20	0.02		H	
Georgia	12			155		915	333	135	153	0.94	0.42	0.05			
Kentucky	2			78		565	389	294	32	0.90	0.44	0.13	H		
North Carolina	6			126	2	1,134	305	452	153	1.01	0.62	0.17	L	L	
South Carolina	7			116		607	97	58	30	1.03	0.32	0.04	L		
Tennessee	1			92	2	734	284	131	43	0.98	0.32	0.06			
<b>Midwest</b>															
Illinois		13				857	414	323	161	0.74	0.24	0.14	H	H	
Indiana		2		95		569	102	9	17	0.83	0.22	0.01	H	H	
Michigan				50		977	383	310	42	1.02	0.41	0.09	L		
Minnesota			10	156		433	285	310	33	1.06	0.73	0.17	L	L	
Ohio			2	170		675	248	120	41	0.55	0.20	0.04	H	H	
Wisconsin	2			130		595	316	103	34	1.01	0.69	0.09	L	L	
<b>Mountain Plains</b>															
Colorado	4			12		311	66	5	5	0.87	0.31	0.01	H		
Iowa				114		349	270	30	15	1.00	0.85	0.03	L	L	
Kansas	3			10		262	88	2	2	0.77	0.44	0.00	H		
Missouri	2			31		601	134	39	5	0.86	0.33	0.02	H		
Montana	1		17	7		139	99	46	4	1.03	0.68	0.10	L	L	
Nebraska	1			40		184	196	13	5	0.99	0.74	0.03		L	
North Dakota	1		3	19		98	124	16	8	0.98	0.96	0.06		L	
South Dakota	1					104	151	21	13	1.13	0.89	0.08	L	L	
Utah	2		3	23	1	204	56	26	6	1.03	0.53	0.07	L	L	
Wyoming				4		66	20	3	8	0.97	0.56	0.02		L	

**Exhibit 2 (cont.)**

**Number of WIC vendors by state and vendor type, and ratio of WIC vendors to FSP stores within vendor category (alphabetical by region)**

State	Number WIC vendors by category <sup>b</sup>										Ratio of WIC/ FSP retailers			Level of vendor restrictions	
	Military commissary	Direct distribution	Home delivery	Pharmacy	WIC-only stores	Super-market	Grocery store	Other retailer	Type unknown	Super-market	Grocery store	Other retailer	Super-market	Grocery store	
	Southwest														
Arkansas	1	1		1	3	365	175	18	9	1.02	0.34	0.02	L		
Louisiana	3				4	518	302	115	12	0.95	0.32	0.06			
New Mexico	2			8	3	182	58	29	2	0.98	0.38	0.04			
Oklahoma	4			31	5	387	134	17	5	1.04	0.44	0.01	L		
Texas	14			32	87	1,928	248	218	77	1.01	0.13	0.03	L	H	
Western															
Alaska	6			1		65	29	97	5	1.33	0.31	0.29	L		
Arizona	1			4		437	64	18	6	0.97	0.24	0.01		H	
California				5	153	2,595	647	268	109	0.89	0.14	0.03	H	H	
Hawaii	6					107	11	8		0.91	0.06	0.01		H	
Idaho	1	4	2	6		158	92	14	3	1.02	0.73	0.06	L	L	
Nevada	2					131	9	14	1	0.99	0.09	0.04		H	
Oregon				7		376	98	29	98	0.90	0.28	0.03	H	H	
Washington	6			2		632	91	31	33	0.95	0.21	0.02		H	

a An “H” indicates a highly-restrictive policy in authorizing WIC vendors, with “highly restrictive” defined as having a ratio that falls in the lowest one-third of the distribution of ratio values. Those States whose ratios are in the top one-third of the distribution are labeled as “L,” or having less-restrictive policies. States with neither an “H” nor an “L” have ratios falling in the middle one-third of the distribution.

b WIC retailers are categorized as “supermarket,” “grocery store,” or “other retailer” based on a match of the TIP and STARS databases. Vermont and Mississippi are excluded from the exhibit because they use home delivery of WIC food items.

Source: WIC vendors: USDA, Food and Nutrition Service, *The Integrity Profile (TIP) Database*, October 1999.

Food stamp retailers: USDA, Food and Nutrition Service, *Store Tracking and Redemption Subsystem (STARS)*, August 1999.

For the purpose of this study, we use the vendor ratios presented in Exhibit 2 as a consistent measure of the restrictiveness of vendor selection across States. It should be noted, however, that we cannot—with complete certainty—attribute all differences in vendor ratios across States to the competitive pricing criteria implemented for cost-containment purposes. Other vendor selection policies, unrelated to cost containment (such as numeric limits and minimum standards), restrict the number of vendors to a level that can be effectively managed by State agencies and ensure that vendors meet standards to adequately provide program benefits. These vendor selection policies also may contribute to variation in ratios across States.<sup>6</sup>

<sup>6</sup> All States with numeric limits also have competitive pricing criteria. Discussions with FNS regional staff, confirmed by comparison of numeric limits with actual numbers of vendors, suggest that numeric limits are rarely binding on a statewide basis, although they may be binding in certain areas within a State.

## Item Selection Practices

Federal regulations define standard food packages for seven categories of WIC participants: (I) infants 0 through 3 months; (II) infants 4 through 12 months; (III) children and women with special dietary needs; (IV) children 1 to 5 years; (V) pregnant and breastfeeding women (basic); (VI) non-breastfeeding post-partum women; and (VII) breastfeeding women (enhanced).<sup>7</sup> The regulations specify the types of foods in each package and the maximum quantities of each food that may be prescribed.

For participants receiving packages I, II and III, the purchase of infant formula, or medically-prescribed formula, is the principal food expense. Food packages II and III also contain breakfast cereal and juice. Food packages IV through VII each contain four major food groups: milk or cheese, eggs, breakfast cereal, and juice. In addition, packages IV and V contain legumes (peanut butter or dry beans), and package VII contains legumes, canned tuna fish, and carrots.<sup>8</sup>

Within the guidelines provided by the Federal regulations, States establish more specific policies for the quantities of foods prescribed to participants. By FNS policy, food quantities must not be reduced for cost-saving reasons, but States may tailor food packages to reduce quantities of foods for individual participants, or categories of participants, based on their nutritional needs, to accommodate participant preferences or intolerances, and to accommodate household conditions. States, however, are encouraged by FNS to consider cost as well as nutritional impacts when determining the allowable types and forms of foods in each food group. The flexibility to make “administrative adjustments” to allowable packaging and brands of foods is an important tool for controlling WIC costs.<sup>9</sup>

State WIC agencies implement the Federal regulations by assembling a list of “WIC-approved foods” that satisfy both the Federal regulations and the selection criteria of the State. Detailed State selection criteria are not always codified in State plans, but selection is generally based on:

- item availability within the State
- participant preferences
- per-unit cost, and
- nutrient content (a few States specify criteria more stringent than Federal regulations).

States review and revise their WIC-approved food list annually or biennially to add new food items, drop discontinued food items, or implement new selection criteria.

Cost-containment item restrictions limit WIC participants’ choice of the food items that may be purchased within the prescribed food package. WIC food lists collected from the States indicate four main methods by which item selection is limited:

- “least expensive brand” policies

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7 7 CFR 246.10.

8 Food packages IV through VI provide either milk or cheese or a combination of the two; package VII provides specific quantities of both milk and cheese.

9 Final WIC Policy Memorandum #97-7, May 1997.

- limits on package size
- limits on product types and forms, and
- limits on the number of approved brands.

These item restriction policies are summarized in Exhibit 3, as is the related use of manufacturer rebates.<sup>10</sup>

Different methods of cost containment are applied to the different groups of WIC foods (milk, cheese, eggs, peanut butter, cereal, juice). For the most part, States use some strategies for the “dairy” items (milk, cheese, and eggs), but use different strategies for “branded” items (cereal, juice and, peanut butter). These differences in strategies arise because participants are more likely to have stronger choice preferences among branded items than among dairy items.

Different brands of milk, cheese, and eggs are not highly-differentiated in terms of ingredients, nutrient content, and product quality. As a result, limits on product choice within these food categories may not adversely affect participant satisfaction with WIC purchases. The cost-containment practices most often observed within the dairy food groups are “least-expensive-brand” policies, limits on package sizes, and limits on package form.

Breakfast cereal, juice, and peanut butter are branded grocery items. These products may be highly-differentiated in terms of ingredients, nutrient content, or product quality. All State WIC-approved food lists include specific enumeration of allowable brands and flavors of breakfast cereal and juices; most States allow purchase of any brand of peanut butter.

The next sections describe the specific ways in which item restrictions are implemented on State WIC-approved food lists.

### **Least-Expensive Brand Requirements**

As noted in Exhibit 3, State agencies with a least-expensive-brand policy specify on the WIC-approved food list that participants “must buy least expensive brand” for one or more particular food groups. Details of exactly what this means vary slightly from State to State. Variants of the least-expensive-brand policy include:

- |                                 |  |
|---------------------------------|--|
| Current lowest price:           | Within a food group, participants must select the brand that is least expensive at the time of purchase.       |
| Traditionally least expensive:  | Within a food group, items chosen for the food list are those that have traditionally been least expensive.    |
| Store brand or least expensive: | Within a food group, participants are required to purchase either the store brand or the least expensive item. |

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<sup>10</sup> Some States (e.g., Missouri) receive grants from a juice manufacturer based on total sales of the manufacturer’s juices, without having any formal agreement. In the Northeast region, the State agencies receive compensation to offset the effects of the region’s dairy compact on wholesale prices. These arrangements are not considered in this study, because they have no impact on participants’ choice of WIC foods.

**Exhibit 3****Types of item restriction cost-containment practices**

<b>Type of practice</b>	<b>Definition</b>	<b>Examples</b>
Require least expensive brand	Food list specifically states "must buy least-expensive brand." Policy is most often used for "commodity items": milk, cheese, eggs. The most common statements of this policy, appearing on food lists, are listed at right.	"Least expensive is defined as the least-expensive brand on the shelf at the time of purchase." (AR, FL, KS, NM) "Least expensive brand in the category of the participant's choice." (LA, ME) "Store brand/least expensive." (CT, NH) "Generic or store brand if available." (CO) "Must buy least cost brand." (CA, OK) "Least expensive brand." No further guidance. (GA, IL, MA, NV, NC, TX, UT, VA)
Limit package size	Food list specifies minimum allowable package sizes. Goal is to limit choice to products with low unit cost or to prohibit package sizes that would preclude purchase of full food prescription.	Milk: restrict to 1/2 gallon or gallon size Cheese: restrict to 8 oz. size or larger Eggs: restrict to dozen per package Frozen juice: restrict to 12 oz. size Peanut butter: restrict to 18 oz. jar Cereal: restrict to 9 oz. size or larger
Limit types and product forms	Food list specifies certain product forms as prohibited, or lists certain allowable product forms. Goal is to limit choice to products with low unit cost.	Cheese: prohibit string, shredded, grated, whips, spreads, "cheese foods" Eggs: limit to "large white" eggs "Shelf juice": prohibit liquid concentrates Peanut butter: prohibit organic, low-fat, added jelly, or added honey Infant cereal: prohibit cereal with fruit
Limit brands	Food list contains a subset of available foods meeting Federal WIC nutrient requirements. Goal is to limit choice to products with low unit cost, and/or keep the list of items "manageable."	Juice: limit number of national brands listed in each flavor category Cereal: limit number of national brands and/or the number of products for each national manufacturer
Manufacturer rebates	Contracts negotiated between State WIC agencies and manufacturers, specifying rebate amount on items purchased with WIC vouchers. State WIC-Approved Food List limits choice to rebate item within food category.	States have current contracts for infant cereal and infant juice

States often adopt a “traditionally least expensive” approach because of the difficulties of implementing a food list with a lowest price policy. Whereas the “current lowest price policy” places the burden on participants and vendors to determine the lowest price item at the time of purchase, the traditionally least-expensive approach allows the State to enumerate specific items on the food list. The “store brand or least expensive” approach is also adopted as an alternative to the lowest price policy approach, to allow for the purchase of name brand items when name brands are on sale, or when use of a coupon makes the name brand less expensive than the store brand.

### **Limits on Package Sizes**

Choice of package size is generally limited for one of two reasons. The primary reason is to reduce food cost: larger packages generally have lower unit prices. Package size also is limited sometimes to ensure that the entire food prescription is purchased.<sup>11</sup>

When setting package size restrictions, States take into account the circumstances of participants and retailers. States with many small retailers (either in older cities or in rural areas) may have to be more flexible, because smaller retailers do not carry as many different sizes as larger supermarkets. Some States choose to take an educational approach rather than a regulatory one: they stress the lower unit cost of larger packages in nutrition education.

### **Limits on Product Types and Forms**

Some food lists prohibit certain product forms within a product group (e.g., string, shredded or grated cheese) or indicate allowable product forms (e.g., large white eggs). In either case, the goal is to limit choice to products with low unit prices, thereby cutting the total cost of the food package.

### **Limits on Branded Items**

As previously stated, peanut butter, breakfast cereal, and juice are branded grocery items, and these products may be highly differentiated in terms of ingredients, nutrient content, or product quality. Because of this differentiation, all brands within a product category may not meet the Federal WIC nutrient requirements. The primary purpose of State WIC-approved food lists is to enumerate products that meet WIC nutrient requirements; a secondary purpose is to enumerate products that meet State criteria for cost savings.

All peanut butter brands meet Federal WIC requirements for nutrient content, except product forms containing added jelly, honey, or other sweetener. As a result, most WIC States approve all peanut butter brands for WIC purchase, but exclude some types of peanut butter from WIC approval based on product form (e.g., organic/natural peanut butter, added sweetener). Some States also limit peanut butter purchases based on product size, restricting purchases to 18-ounce jars. As noted above, however, the product size restriction is most likely motivated by the desire to have WIC participants purchase the full food prescription.

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11 For example, Federal WIC food package regulations stipulate 18 ounces of peanut butter per month. Most States require purchase of peanut butter in 18-ounce jars. This package size requirement is likely due to the fact that purchase of 12- or 16-ounce jars of peanut butter cannot be supplemented with purchases of 6- or 2-ounce jars (because peanut butter is not available in these sizes). Therefore, only purchase of an 18-ounce jar represents full food package consumption.

Only six States restrict peanut butter purchases for cost containment; these States require the least-expensive brand of peanut butter. As noted above, the meaning of this requirement varies from State to State, so it is not clear whether some or all of these States effectively require the purchase of store-brand peanut butter, which would usually be the least-expensive brand. A few States, such as Texas, experimented with requiring store brands for peanut butter but then withdrew these requirements, citing participant dissatisfaction and reduced consumption of peanut butter.<sup>12</sup>

Within the cereal and juice categories, there is a wide range of choice available in a typical supermarket, but only subsets of all manufactured cereals and juices meet the Federal WIC nutrient requirements. Within those subsets, each State WIC agency selects items eligible for WIC purchase within their State and enumerates specific products (brand and flavor) on their WIC-approved food list.

There is considerable variation across States in the number of breakfast cereals and juices enumerated on the food lists. Some variation in the number of branded items appears to be due to the time and effort required to update the lists. States must annually review the nutrient content of items on their WIC-approved food list. By limiting the number of items on the food list, a State conserves costs of reviewing current items, approving newly-available items, and disseminating the changes to local agencies, participants, and vendors. Competing priorities for program managers also may lead some States to lag behind others in responding to the introduction of new brands in the marketplace.

Many of the State limits on branded food items, however, are clearly for cost-containment reasons. When item restrictions are used for cost-containment purposes, the restrictions typically limit participants to items with low unit cost. For example, containment of food costs is clearly the motive when WIC agencies require purchase of store brands, or place limits on package size.<sup>13</sup> These two types of restrictions are directly observable on State WIC-approved food lists. (Some States use a per-unit price cutoff when approving items for their food list, but the actual price cutoffs are generally not documented in State publications.)

In addition to restricting food lists to low-cost brands, WIC agencies are increasingly aware of the cost-reducing advantages of adding store brands to their food lists. Both FNS and industry sources indicate that numerous States have opened up their food lists to increasing numbers of store brands in recent years, responding to the increasing availability and popularity of these alternatives to national brands. Because State agencies often track the food lists of neighboring States, this change has tended to spread on a regional basis.

### **Summary of Item Restrictions**

The item restrictions observed on State WIC-approved food lists are summarized in Exhibit 4. For this exhibit, and in the subsequent discussion, the focus is on the main categories of food that account for most WIC purchases, e.g., fluid milk as opposed to evaporated, dry, or lactose-free milk; peanut butter as opposed to beans/peas. The first three columns of Exhibit 4 contain indicators of the presence of least-expensive brand policies, store brand requirements, and product size restrictions, respectively. In each of

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12 Interview with Texas WIC director conducted on February 27, 1997 by Peter Bramble and Leigh White, U.S. General Accounting Office.

13 Except, as noted above, for peanut butter.

these columns, food groups are denoted by abbreviation (e.g., “m” stands for milk, “c” for cheese, “e” for eggs, and so on, as defined in the footnote to the exhibit).

Under “Range of Choice,” Exhibit 4 indicates whether the range of choice is “narrow” or “broad” for branded food items. States are classified as either narrow or broad choice based on the number of national-brand breakfast cereals and national-brand juices on the State food list. States with a number of items in the top quartile are classified as broad choice; States with a number of items in the bottom quartile are classified as narrow choice. For example, approximately one-fourth of all States allow 22 or fewer juice choices for WIC purchase, and approximately one-fourth of States allow 13 or fewer national brands of cold breakfast cereals. These States are classified as narrow-choice States in Exhibit 4. Conversely, States allowing the highest number of choices (in the top quartile) are classified as broad-choice States.

Regardless of the specific form of a food item restriction, these restrictions may affect participants’ satisfaction with the WIC program in a number of different ways. First, to the extent that preferred brands are eliminated from the State’s approved food list, participants may consume less of that product than they would in the absence of cost-containment practices. Second, the shopping experience itself may become more difficult as participants spend more time looking for the appropriate brands or packaging or trying to determine which item is least expensive within a food group. This may be a particular problem for WIC participants on special diets or with food allergies, requiring them to spend time investigating ingredient labels of new products or calling product manufacturers to determine whether specific ingredients are present in a food item.<sup>14</sup>

Restrictions on brands and packaging could also lead to partial redemption of WIC food instruments if allowed items are too difficult to find or pose dietary or allergy problems. It is also possible that these restrictions could lead to reduced consumption of nutritious foods. In the extreme, some participants might decide to leave the program if their dissatisfaction with allowed food items became great. Any reduction in consumption of nutritious foods or WIC participation would counter the program’s goal of providing nutritious foods to supplement the diets of low-income women, infants and children.

## **Manufacturer Rebates**

Manufacturer rebates are the third type of cost-containment practice to be examined by this study. WIC state agencies competitively solicit sole-source rebate contracts for a particular food item, for example, infant cereal. In exchange for a rebate for each unit of food purchased, the State agency issues only the contracted food item to participants. For example, a State having a rebate agreement with Gerber for infant cereal approves only the Gerber brand for WIC purchases of infant cereal. Thus, from the WIC client’s view, a manufacturer’s rebate appears as an item restriction.

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<sup>14</sup> For those WIC participants with medically documented food allergies, the WIC program offers tailored food packages to avoid problems with some food allergens. The WIC program also attempts to alleviate potential problems with food allergies and special diets through nutrition education and counseling.

**Exhibit 4****Item cost-containment practices (alphabetical by region)**

State	Least expensive brand <sup>a</sup>	Require store brands	Restrict product size <sup>a,b</sup>	Range of choice		Rebates on foods
				Cold cereals	Adult juices <sup>c</sup>	
<b>Northeast</b>						
Connecticut	m,c,e,j,pb		cer, fj			Gerber (cereal)
Maine	j		cer, fj	Narrow		
Massachusetts	m		cer,fj	Broad		
New Hampshire	m,e,pb		m,fj			
New York			m,cer,fj	Narrow		Gerber (cereal)
Rhode Island (missing food list)						
Vermont (home delivery)						
<b>Mid-Atlantic</b>						
Delaware			c	Narrow	Narrow	Gerber (cereal/juice)
District of Columbia					Narrow	Gerber (cereal/juice)
Maryland			m, fj		Broad	Gerber (cereal/juice)
New Jersey			m,cer,fj			
Pennsylvania			cer,fj			
Virginia	m		m,fj			
West Virginia			fj			Gerber (cereal/juice)
<b>Southeast</b>						
Alabama			m,fj			
Florida	m,e,j		m,cer		<i>Narrow</i>	
Georgia	e,j		m,c,cer			
Kentucky			fj			
Mississippi (home delivery)						
North Carolina	m		cer,fj		Broad	
South Carolina			fj		Broad	
Tennessee			m,cer,fj	Broad	Broad	
<b>Midwest</b>						
Illinois	m,c		m,fj	Broad	Broad	
Indiana			m,cer,fj			Beechnut (cereal)
Michigan			cer,fj		Broad	
Minnesota			m,cer,fj	Broad	Broad	
Ohio			m	Broad	Broad	
Wisconsin			m,fj	Broad	Broad	
<b>Mountain Plains</b>						
Colorado		m,c,e	c,fj	Broad		
Iowa			fj	Broad		
Kansas	m,c,e,j,pb,ic		c,cer,fj	Narrow		
Missouri (missing food list)						
Montana				Broad		
Nebraska		m	fj		Narrow	
North Dakota			m	Broad		
South Dakota			cer			
Utah	m,c,e,j,pb		fj		Narrow (f)	
Wyoming			fj		Narrow (f)	
<b>Southwest</b>						
Arkansas	m,c,e,j		c	Broad		
Louisiana	m		m,c,fj	Narrow		
New Mexico	m,c,e,j,pb		cer,fj	Narrow	Narrow (f)	
Oklahoma	m,c,e	cer	m,cer,fj	Narrow	Narrow	
Texas	m,j		m,cer,fj	Narrow	<i>Narrow</i>	Gerber (cereal)

**Exhibit 4 (continued)**

**Item cost-containment practices (alphabetical by region)**

State	Least expensive brand <sup>a</sup>	Require store brands	Restrict product size <sup>a,b</sup>	Range of choice		Rebates on foods
				Cold cereals	Adult juices <sup>c</sup>	
<b>Western</b>						
Alaska			fj		Broad	
Arizona			fj	Narrow		
California	m		m,c,cer,fj	Narrow	Broad	Gerber (cereal);adult juice
Hawaii			m,cer,fj	Narrow	Narrow	
Idaho			fj	Narrow		
Nevada	m,e,pb		cer		Narrow	Gerber (cereal)
Oregon			fj		Narrow	
Washington			fj		Broad	

a Definitions: m=milk, c=cheese, e=eggs, j=juice, pb=peanut butter, cer=cereal, ic=infant cereal, fj=frozen juice.

b Restrict product size is indicated if minimum size is: 1/2 gallon or gallon for milk; 9 oz. or larger for cheese; larger than 6 oz. of frozen juice; any specified size for cereal. If food list requires "least-expensive or store brand," then only "least expensive" column is checked.

c "Narrow" denotes that least-expensive-brand policy is holding down the number of allowed national brands. Narrow (f) denotes that only frozen juice is allowed.

The presence of manufacturer rebate contracts, across States, is shown in the last column of Exhibit 4. Nine States and the District of Columbia had rebate contracts in place in fall 1999.<sup>15</sup> Nearly all rebate contracts are for infant cereal and infant juice; the exception is California's contracts for adult juice, which expired in January 2000.

<sup>15</sup> As noted earlier, the study does not plan to assess the impacts of infant formula rebates.